100-05067 Saskatchewan Telecommunications International Inc. : Consolidated financial statements

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Deloitte & Touche

Consolidated Financial Statements of

SASKATCHEWAN TELECOMMUNICATIONS INTERNATIONAL, INC.

December 31, 1999

Deloitte Touche Tohmatsu

100-05067/

Deloitte & Touche

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AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the consolidated statement of financial position of Saskatchewan Telecommunications International, Inc. as at December 31, 1999, and the consolidated statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 1999, and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 21, 2000

Deloitte Touche Tohmatsu

CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended December 31
(Thousands of dollars)

	1999	1998
Sales and consulting	**$ 18,834**	$ 17,435
Direct expenses	**14,146**	12,442
Gross profit	**4,688**	4,993
Expenses		
Operating expenses	**4,405**	3,788
Depreciation	**110**	82
	4,515	3,870
Operating income	**173**	1,123
Other items (Note 3)	**64**	375
Gain on management contract (Note 4)	**5,625**	-
Net income	**$ 5,862**	$ 1,498

STATEMENT OF RETAINED EARNINGS

For the year ended December 31
(Thousands of dollars)

	1999	1998
Retained earnings, beginning of year	**$ 3,862**	$ 3,188
Net income	**5,862**	1,498
	9,724	4,686
Dividends	**3,224**	824
Retained earnings, end of year	**$ 6,500**	$ 3,862

See Accompanying Notes

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31
(Thousands of dollars)

	1999	1998
Assets		
Current assets		
Cash	**$ 1,131**	$ 296
Short-term investments (Note 5)	**6,441**	6,802
Accounts receivable	**3,341**	3,801
Due from SaskTel Holding (New Zealand) Inc. (Note 6)	**2,813**	-
Work in process	**1,397**	387
	15,123	11,286
Furniture and equipment (Note 7)	**508**	565
	$ 15,631	$ 11,851
Liabilities and shareholder's equity		
Current liabilities		
Accounts payable	**$ 1,068**	$ 4,450
Unearned revenue	**3,750**	1,338
Dividend payable	**2,570**	824
Accrued liabilities	**743**	377
	8,131	6,989
Shareholder's equity		
Share capital		
Authorized-unlimited number of class A common shares		
Issued - 1,000,000 shares	**1,000**	1,000
Retained earnings	**6,500**	3,862
	7,500	4,862
	$ 15,631	$ 11,851

See Accompanying Notes

On behalf of the Board

R Stephanson

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31
(Thousands of dollars)

	1999	1998 (Note 11)
Operating activities		
Net income	**$ 5,862**	$ 1,498
Items not affecting cash from operations	**(2,703)**	82
Net change in non-cash working capital items (Note 8)	**(1,153)**	(33)
Cash provided by operating activities	**2,006**	1,547
Financing activities		
Dividend payments	**(1,478)**	(1,063)
Cash used in financing activities	**(1,478)**	(1,063)
Investing activities		
Purchase of furniture and equipment	**(54)**	(458)
Cash used in investing activities	**(54)**	(458)
Increase in cash	**474**	26
Cash and cash equivalents, beginning of year	**7,098**	7,072
Cash and cash equivalents, end of year	**$ 7,572**	$ 7,098
Comprised of:		
Cash	**$ 1,131**	$ 296
Short-term investments	**6,441**	6,802
	$ 7,572	$ 7,098

See Accompanying Notes

NOTES TO FINANCIAL STATEMENTS

Note 1 -- The Corporation

Saskatchewan Telecommunications International, Inc. (the Corporation) is incorporated under the laws of the Province of Saskatchewan. The Corporation is a wholly owned subsidiary of Saskatchewan Telecommunications Holding Corporation (Holdco) with the mandate of pursuing core telecommunications business opportunities worldwide.

The financial results of the Corporation are included in the consolidated financial statements of Holdco. As a wholly owned subsidiary of Holdco, a Saskatchewan Provincial Crown corporation, it is not subject to Federal or Provincial income taxes in Canada.

Note 2 -- Summary of significant accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The most significant policies are outlined below.

Consolidation
The consolidated financial statements include the accounts of the Corporation and its subsidiary, Saskatchewan Telecommunications Consulting, Inc. All significant intercompany transactions and balances have been eliminated.

Revenue
Operating revenues from the sale of software, equipment and consulting services are recognized at the point of sale or when services are performed. For longer term consulting contracts, the percentage of completion method is used.

Work in process
Work in process is valued at the lower of cost and net realizable value.

Furniture and equipment
Furniture and equipment is recorded at cost less accumulated depreciation. Depreciation is computed on a straight-line basis over 17 and 4 years for furniture and equipment respectively.

Unearned revenue
Unearned revenue is comprised of amounts billed to customers for which services have yet to be delivered.

Foreign currency translation
Monetary assets expressed in foreign currencies are recorded in Canadian dollars at the foreign exchange rate prevailing at year-end. Foreign exchange gains and losses arising on translation are charged to income or expense in the current year. Unrealized gains and losses on monetary assets identified as hedges are deferred and recognized on a basis consistent with the underlying hedged transactions.

Financial instruments
The Corporation's primary business is international telecommunications consulting which entails exposure to foreign exchange risk. The Corporation's foreign exchange risk relates primarily to the risk that the market value of accounts receivable and the associated revenues will fluctuate due to changes in exchange rates. A portion of the Corporation's accounts receivable and accounts payable are denominated in Philippine Pesos and US Dollars.

The Corporation is exposed to credit risk relating to accounts receivable balances from international contracts. The accounts receivable balances are primarily from large telecommunications companies or international government development agencies.

NOTES TO FINANCIAL STATEMENTS

Note 3 -- Restructuring charges

The Corporation recorded in Other Items restructuring charges of $0.2 million for bridging costs and retirement allowances borne by the Corporation pertaining to an early retirement program offered in 1999.

Note 4 -- Gain on management contract

The Corporation was subcontracted by SaskTel Holding (New Zealand) Inc. to provide managerial and technical services to Saturn Communications Limited (Saturn), an investment of SaskTel Holding (New Zealand) Inc. When SaskTel Holding (New Zealand) Inc. disposed of its investment in Saturn in July of 1999, the contract was terminated. As a result the Corporation received $5.6 million as a settlement for future management contract fees foregone. The $5.6 million represented the present value of the management fees expected over the remaining term of the contract prior to its termination.

Note 5 -- Short-term investments

The balance consists of funds invested with Holdco at an average current market interest rate of 4.69 % and have no specified repayment terms.

Note 6 -- Due from SaskTel Holding (New Zealand) Inc.

In consideration for the $5.6 million settlement with SaskTel Holding (New Zealand) Inc. as described in Note 4, the Corporation received $2.8 million in cash and the remaining $2.8 million is due from SaskTel Holding (New Zealand) Inc.. SaskTel Holding (New Zealand) Inc. held 13,659,574 of common shares of Austar United Communications Limited (Austar) at December 31, 1999 of which the value of 612,617 shares have been ascribed to the amount due to SaskTel International. The amount owing is equivalent to the net realizable value on the eventual sale of 612,617 Austar common shares. Settlement with SaskTel Holding (New Zealand) Inc. will occur simultaneously with the sale of Austar shares. At December 31, 1999, the fair value of 612,617 Austar shares was $3.6 million.

The due from SaskTel Holding (New Zealand) Inc. is recorded at the lower of carrying value or the fair value of the shares in Austar.

Note 7 -- Furniture and equipment

	1999	1998
	(Thousands of dollars)	
Furniture	**$ 341**	$ 359
Equipment	**434**	362
	775	721
Less: Accumulated depreciation	**267**	156
	$ 508	$ 565

Note 8 -- Net change in non-cash working capital items

	1999	1998
	(Thousands of dollars)	
Accounts receivable	**$ 460**	$ 906
Work in process	**(1,010)**	(339)
Accounts payable	**(3,382)**	241
Unearned revenue	**2,412**	(1,203)
Other liabilities	**367**	362
	$ (1,153)	$ (33)

Note 9 -- Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan and Holdco (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions and amounts outstanding at year-end, are as follows:

	1999	1998
	(Thousands of dollars)	
Sales and consulting	**$ 3,047**	$ 3,353
Direct and operating expenses	**2,185**	1,621
Short-term investments	**6,441**	6,802
Accounts receivable	**382**	97
Accounts payable	**74**	2,354
Unearned revenue	**-**	534

In addition, the Corporation pays Saskatchewan Education and Health Tax to the Saskatchewan Department of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to (from) related parties and terms of settlement are described separately in these financial statements and notes thereto.

Note 10 -- Year 2000 Issue

The Year 2000 issue arises because many computer systems use two digits rather than four to identify a year. The effects of the Year 2000 issue may be experienced before, on or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the Corporation, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

Note 11 -- Comparative figures

1998 figures have been reclassified to conform to the current year's presentation.